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Impact of the EU ban on agricultural imports

In April, Ukraine's agro-food exports got a major blow. In mid-April, Poland, Hungary, Slovakia, and Bulgaria banned imports of cereals, oil seeds and many other food products from Ukraine until end-June. Furthermore, Poland banned the transit. These unilateral measures stay in contrast to the Association Agreement and WTO norms.

After two weeks of consultations, the European Commission (EC) announced replacing these unilateral bans with the EU's exceptional temporary (until 5 June) preventive measures, banning imports of wheat, maize, rapeseeds and sunflower seeds to five EU member states, including Romania but not the transit. The EU ban covers USD 0.4 bn of Ukraine's monthly exports and Ukraine's reorientation to other countries has entailed new delays and additional costs. Maize exports suffer the most.

Moreover, the EU decision did not resolve trade uncertainty. The 'shielded' countries have already called for extending the restrictions' scope and duration, while other EU member states express concern regarding the implication for the free goods trade in the EU internal market.

Background

On 15 April, Poland took a unilateral decision to ban imports and transit of Ukraine's cereals, oil seeds and many other agriculture and food products from Ukraine. The ban was imposed from 19 April until 30 June. Over the next days, Hungary, Slovakia and Bulgaria joined the ban on imports (but not transit) of agro-food. Romania announced considering the ban.

On 21 April, transit through Poland was resumed. However, additional requirements were imposed, including convoys and GPS trackers. The Ukrainian exporters reported continued delays in transit and long queues at the border. Moreover, exports requiring reloading or waiting in ports had remained complicated.

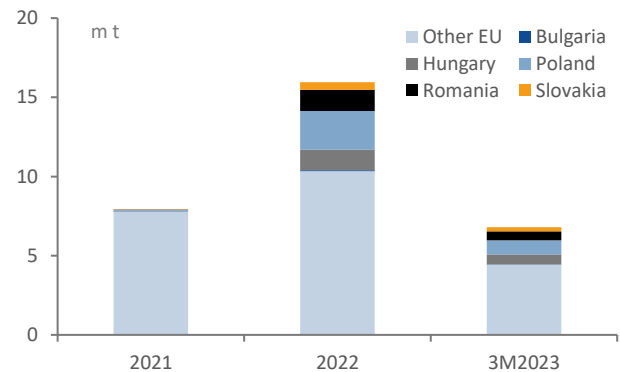
Why the ban was imposed

The pretext for prohibitions was farmers' protests and the need to prevent market disruptions and damage to the producers suffering from low prices amid intensified Ukraine's grain exports under the EU Autonomous Trade Measures and Solidarity Lanes Initiative.

Indeed, the physical volumes of EU imports of Ukrainian doubled from 7.9 m tons in 2021 to 16.0 m in 2022. One-third of extra imports went to five neighbouring countries, with Poland importing +2.4 m tons in 2022

compared to 2021, followed by Romania and Hungary (+1.3 m tons each).

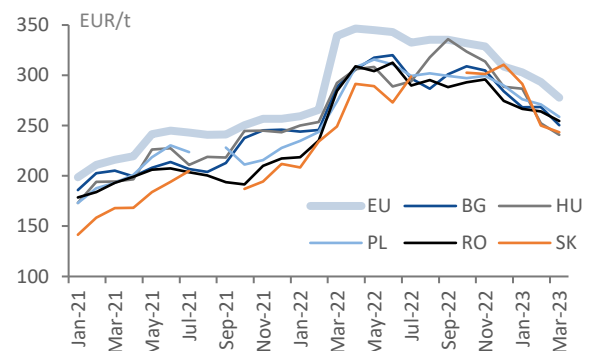
Imports of Ukrainian cereals to the EU



Source: Eurostat

However, the impact of this grain influx on neighbouring countries' markets is not apparent. Such excess product supply would be expected to lead to a sharp price drop on the domestic markets, exceeding the EU average. However, market prices on grains followed the EU trends. They fell in the first months of 2023 compared to the peak in spring 2022, but and remained well above the pre-war level.

The market price of feed maize in the EU



Source: Eurostat

How the EU responded

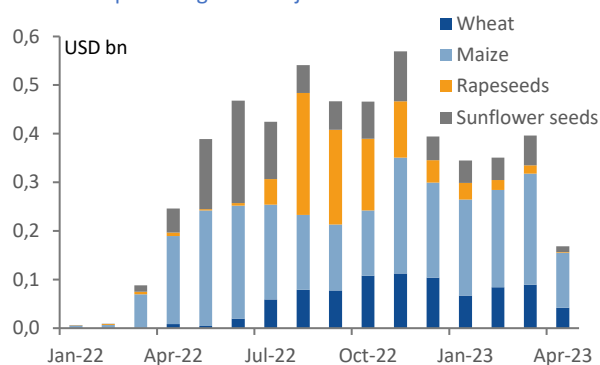
The unilateral and abrupt decisions to ban imports and transit did not align with the EU-Ukraine Association Agreement and EU common market and WTO norms. After two weeks of intensive consultations, the EC announced a deal with Ukraine's neighbours, replacing their unilateral bans with the EU's exceptional temporary preventive measure applied from 2 May till 5 June. The deal foresaw a ban on imports of wheat, maize, rapeseeds and sunflower seeds from Ukraine to the five countries in exchange for them lifting the unilateral restrictions, thereby restoring exports of all other goods and ensuring unrestricted exports to other EU member states.

Importantly, the EU imposed bans not only on wheat and maize, which are subject to tariff rate quotas (TRQ) under the Association Agreement. But this measure also applies to rapeseeds and sunflower seeds, both of which have been enjoying duty-free regimes with the EU for years already.

Trade impact on Ukraine

In March 2023, Ukraine's exports of wheat, maize, rapeseeds and sunflower seeds to these five EU countries were USD 0.4 bn, which is ca. one-third of these products' total exports by Ukraine. Exports were already lower in March 2023 than during the peak in August-November 2022. Maize has been the key product shipped to these countries.

Ukraine's exports of goods subject to the EU ban



Sources: ITC TradeMap, Ukrainian Customs Service

In April, Ukraine's agro-food exports to the four countries that imposed the prohibitions dropped by 68% to USD 0.1 bn.

Still, for Ukraine, this decision is probably "the best of the worst". The best case would be to have no ban. But the current deal preserves access to most of the EU market and other countries through transit. And, formally, the decision is temporary. On the other hand, the decision requires a significant short-term reorientation, meaning additional losses on top of those incurred by exporters due to the bans.

Outlook

In 2022, after the full-scale aggression and the seaport blockage, the development of land export routes was fostered, Ukraine's neighbours have become an important destination and transit hub of grain and other agro-food exports previously shipped by sea elsewhere. However, the impact of the current trade measures by the EU shows that Ukrainian agrarian producers must in the short term again reorient to other destinations, incurring additional costs.

Even the current EU deal has been fragile. Hungary and Slovakia lifted their unilateral measures just in mid-May. At the same time, these five neighbours already called for expanding the duration of the temporary measures and product coverage of the EU ban, while other EU member states expressed serious concern about the situation's impact on the free goods trade in the EU internal market and the prospects of EU compensation scheme that provides EUR 100 m to farmers in these five neighbouring countries.

The availability of export routes remains uncertain. The Black Sea Grain Initiative, the largest channel for shipping grains, seeds and oils, suffers significant deficiencies, even though it was recently prolonged until July. Also, the Danube River ports are used close to full capacity. Therefore, a reliable land transit corridor without hurdles is crucial for Ukraine, but also for international food security. Finally, this policy issue will continue to play a role in Ukraine's accession process.

Financed by the Federal Ministry for Economic Affairs and Climate Action, the German Economic Team (GET) advises the governments of Ukraine, Belarus*, Moldova, Kosovo, Armenia, Georgia and Uzbekistan on economic policy matters. Berlin Economics has been commissioned with the implementation of the consultancy.

*Advisory activities in Belarus are currently suspended.

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